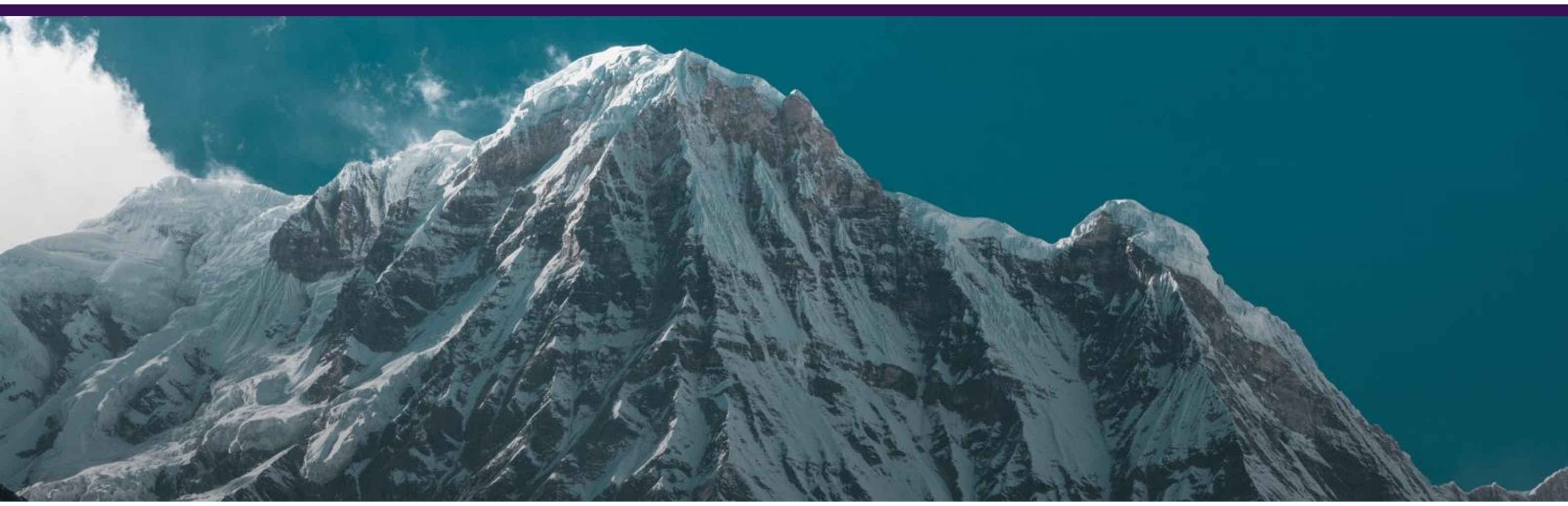


Why it's important to keep calm and think about the long term

At this time, the value of your investments may be the least of your worries. Your health and wellbeing, and that of your family and friends, is likely to be your primary concern in the coming weeks and months.

However, while governments around the world take draconian steps to stem the spread of the coronavirus, one of the most immediate consequences of the virus outbreak has been the impact on global stock markets.

During periods of stock market volatility, it's important to remain calm and not to let emotions damage your long-term planning.

Volatility in markets is normal

Between 1st January and 20th March 2020, the MSCI World Index – a weighted stock market index of 1,644 stocks from companies throughout the world - fell by around 30%. While you may be concerned about the short-term volatility of the markets, it's important to stay calm and focused on your goals.

Whenever you invest in equities, short-term volatility is something that you should expect and accept. Everything from oil prices to Donald Trump's Twitter updates can affect what happens to markets around the world, and so on any given day or week prices will fluctuate in the short term.

However, in the long term – and that's what the vast majority of us are investing for – markets tend to offer positive returns. The pandemic may last months or even into next year, but life and business activity will normalise and so will the markets over time.

Here's some data showing the performance of global stock markets over the last 15 years.

- The MSCI World Index captures large and mid-cap representation across 23 developed markets, including the UK, the US, Japan and Germany.
- The MSCI Emerging Markets index is a weighted index of stocks in countries such as China, Korea, India, Brazil and Russia.
- The MSCI ACWI Index represents the performance of large- and mid-cap stocks across 23 developed and 26 emerging markets. As of December 2019, it covers more than 3,000 constituents across 11 sectors.

The graph below shows the cumulative performance of the three indices between February 2005 and February 2020. The adjacent table shows the annual performance of each index in each year.

CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD)
(FEB 2005 – FEB 2020)

ANNUAL PERFORMANCE (%)

Year	MSCI World	MSCI Emerging Markets	MSCI ACWI
2019	27.67	18.42	26.60
2018	-8.71	-14.57	-9.41
2017	22.40	37.28	23.97
2016	7.51	11.19	7.86
2015	-0.87	-14.92	-2.36
2014	4.94	-2.19	4.16
2013	26.68	-2.60	22.80
2012	15.83	18.22	16.13
2011	-5.54	-18.42	-7.35
2010	11.76	18.88	12.67
2009	29.99	78.51	34.63
2008	-40.71	-53.33	-42.19
2007	9.04	39.42	11.66
2006	20.07	32.14	20.95

It is notable that, over the long term, all three indices show significant returns. This is despite a fall of between 40% and 53% in 2008, during the global financial crisis.

Here are the annualised returns of the various indices over one, three, five and ten years and since December 2000.

INDEX PERFORMANCE — NET RETURNS (%) (FEB 28, 2020)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Dec 29, 2000
MSCI World	-8.45	-6.28	4.63	-9.01	7.24	5.88	8.75	4.95
MSCI Emerging Markets	-5.27	-2.95	-1.88	-9.69	4.89	2.73	3.18	8.48
MSCI ACWI	-8.08	-5.89	3.89	-9.09	6.96	5.55	8.10	5.04

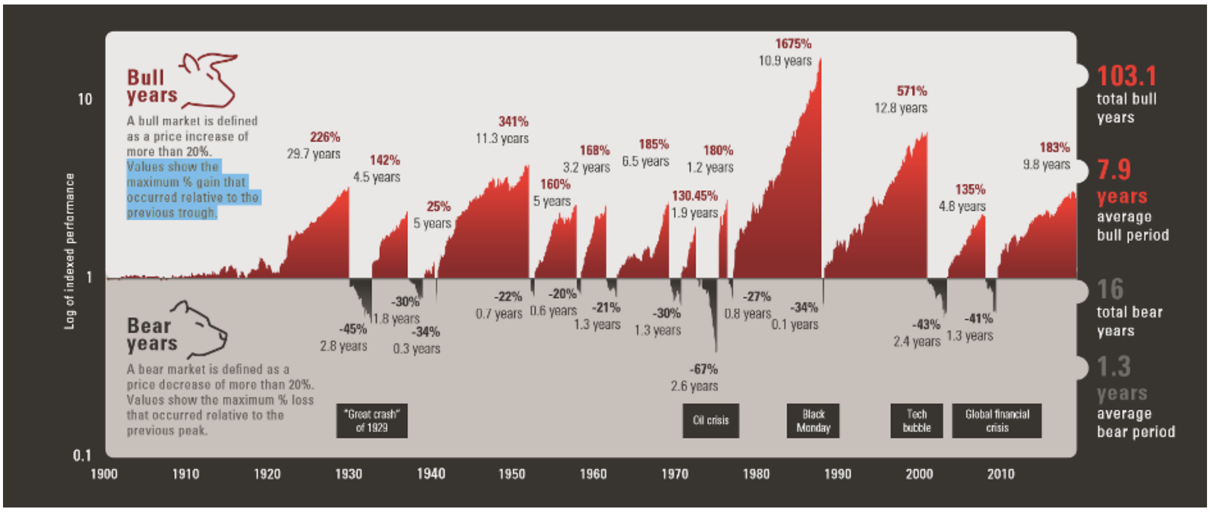
You will see that the annualised return of the MSCI World index over the last decade is 8.75%. Global markets, as represented by the ACWI index, show annualised return of more than 5% in the last 19 years, and that includes a 42% fall in 2008 during the global financial crisis.

Looking at data from the FTSE 100 and other indices shows the same pattern – there is short-term volatility, but markets generate returns over time.

Bull vs bear markets

A bull market is defined as a price increase of more than 20%. A bear market is defined as a price decrease of more than 20%.

The chart below shows the bull and bear markets over the past century. Values show the maximum percentage gain or loss that occurred relative to the previous peak or trough.



Notes: Calculations are based on FTSE All Share (GBP Total Return). A bear market is defined as a price decrease of more than 20%. A bull market is defined as a price increase of more than 20%. The plotted areas depict the losses/gains ranging from the minimum following a 20% loss to the respective maximum following a 20% appreciation in the underlying index. Time period: 31 January 1900 to 31 December 2018. Calculations based on monthly data. Logarithmic scale on y axis. Source: Global Financial Data.

What is notable from this data is that the average bull period of growth approaches eight years, while the average bear period of decline typically lasts less than a year and a half.

So, while the market does see corrections such as the one we are experiencing at present, over the last 119 years there have been 103 bull years and just 16 bear years. The growth over the long term outweighs the decline.

Please note: Past performance is not a reliable indicator of future results. The value of investments, and the income from them may fall or rise and investors may get back less than they invested.

Two other things to bear in mind

1. You have a diversified portfolio. When you read about the fall in the value of the FTSE 100 in the news, this percentage fall is typically not the same as the fall in the value of your portfolio. Our clients have diverse portfolios that include exposure to other asset classes, for precisely this type of situation.

2. Now is a bad time to panic. Think of it this way: if your house had fallen in value in the short term, it is unlikely that you would immediately put it up for sale and realise a loss.

3. Reacting to a fall in the markets can be a mistake, and many studies have found that this is one of the main reasons why investors lose money.

Get in touch

If you need any advice during these unprecedented times, please get in touch. Email info@henwoodcourt.co.uk or call 0121 313 1370.

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